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## NEWS RELEASE

### TOP TEN INVESTMENT SCAMS PREDICTED FOR 2006

*Hold For Release Until January 1, 2006*

The Utah Division of Securities estimates that Utahns lose over \$50 million a year in investment scams and released a prediction of the investment scams that will be most prevalent in Utah in 2006. The prediction is based on scams recently discovered in Utah and frauds being promoted in other states.

The top ten are:

1. Instant Messaging Stock Tips In this scam, promoters of penny stock companies send text messages to your cell phone. The messages contain stock tips, purporting to be inside information sent by mistake. This is modeled after a very successful 2005 scam that used faxes and voice mail messages claiming inside information. Once the stock price soared, the promoters sold their shares and the stock became worthless.

#### Top Ten Scams

1. Instant Messaging Stock Tips
2. Iraqi Currency
3. Antique Foreign Bonds
4. Advance Fees
5. Fake Regulatory Agencies
6. Promissory Notes/Factoring
7. Foreign Currency Trading
8. Senior Specialists
9. Prime Bank
10. Affinity Fraud

2. Iraqi Currency Advertisements in local newspapers promise great wealth by purchasing the new Iraqi dinar. Promoters explain that as democracy comes to Iraq, the expected peace will stimulate the Iraqi economy and the value of the dinar. What investors are not told is that the dinars can be redeemed only in Iraq and that the sellers already have doubled their money. Thus, the dinar would have to more than double in value and you would have to take a trip to Iraq to collect any profit.
3. Antique Foreign Bonds A Utah promoter sold Paraguayan bonds issued in the 1930's claiming they still were valid and paid interest. While the bond certificates looked official, they had expired many years ago and had value only as wall decorations. The promoter admitted selling securities without a license. He is

paying \$12,000 in restitution and has paid a \$10,000 fine. Other exotic foreign investments include buying land in South American resort cities and Latin American mines excavating valuable stone used in construction.

4. *Advance Fees* This scheme targets businesses offering to arrange large loans at low interest rates after payment of an advance fee. In the end, the promoters use the fee for personal expenses and no loans are ever made. Michael B. Scharbarth pleaded guilty in Logan last month to two counts of securities violations and will pay \$250,000 in restitution. An Ogden company, Masada Capital, was ordered in November to cease and desist making advance fee loans and will repay \$5,250 to victims as well as pay a fine.
5. *Fake Regulatory Agencies* Some scam artists have created bogus investment-related “regulatory” web sites to add legitimacy to their ploys. At least one of these is headquartered in Utah. Fake Internet pages are set up to look like the official web site of regulatory agencies. You are led to believe you are dealing with a legitimate regulator who is vouching for a particular investment or a seller of securities. Names of these fake regulators include the Regulatory Compliance Commission, the International Compliance Commission, and the International Exchange Regulatory Commission. None of these groups has any relation to real government agencies. Often, these groups ask you to pay a fee to release “restricted stock” in public companies, promising to share the profits. They have no shares and just steal your money.
6. *Promissory Notes /Factoring* You may be asked to loan money to fund a company’s operations, getting a promissory note in return. These offerings have been unusually successful because they often are offered by insurance or real estate salespersons who don’t realize the promissory notes are worthless and who are not licensed to sell securities. In December, an insurance agent in Brigham City was charged with four felonies for selling promissory notes and other fraudulent practices. A related scheme involves factoring, selling accounts receivable at a discount with a promise that when the customer pays his bill, you will receive the full amount. In early December, a Utah company was accused of selling factoring agreements. When a company official was sent to prison for an earlier factoring scam, his son continued selling these investments.
7. *Foreign Currency Trading* Radio and television advertisements seek to convince Utah residents that they can earn huge profits by buying and selling the Euro, the Yen, Russian Ruble, or the Canadian Dollar. Promoters of these programs claim that it is easy to make a profit when, in fact, profits depend on economic outlook and fiscal policies of each country. The promoters make their profit by charging

high commissions or selling supposedly “foolproof” investment strategies. Ask yourself why they are selling you this strategy rather than using it themselves.

8. Senior Specialists Some sales persons have begun calling themselves “senior specialists” in an effort to sell financial products to seniors. They hope this designation will give them more credibility with customers, when in reality, the sales persons have received no special training. Anyone claiming to be a senior specialist may be trying to disguise a fraudulent investment, sell an unsuitable investment, or trick you into disclosing confidential financial information. Check out the credentials of anyone claiming to be a “senior specialist” or some other designation claiming expertise in providing services to seniors.
9. Prime Bank In this scam, you are told that certain secret European banks offer higher profits than are available at U.S. banks. The crooks say the money will be used to facilitate money transfers between these banks and that your investment is guaranteed. In reality, there are no such prime banks and investors lose all their money.
10. Affinity Fraud This is a catchall phrase for the many types of investment scams that are pitched to certain groups of victims. Often they target employees at one company or members of a church. Promoters hope that your guard will be down if the investment is sold by someone you know and if other members of your “group” also invest. Members of several Utah congregations sent more than \$21 million to a California real estate scam in a case prosecuted in 2005. In November, Arizona regulators shut down Mathon Management which raised \$150 million from investors by touting the credibility of company officers as former missionaries.

The Department of Commerce urges investors to be careful with all investment opportunities. “Make sure the investment is registered and the salesperson is licensed.” said Wayne Klein, Director of the Utah Division of Securities. “People often reevaluate their finances at the end of the year for tax purposes or to invest year-end bonuses. Take time to ensure all investments you make are legitimate.”

Investors are encouraged to check out any investment opportunity and verify that the salespersons are licensed by calling (801) 530-6600. More information about these and similar scams can be found at the Division’s web site [www.securities.utah.gov](http://www.securities.utah.gov).

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